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Farmers Home Administration

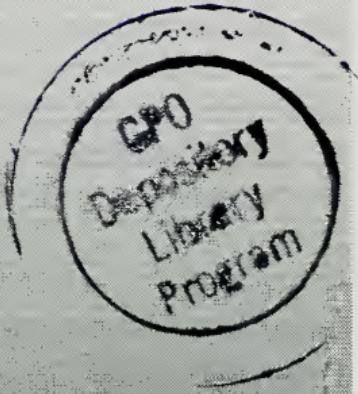
Program Aid Number 1511

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**Guaranteed Farm  
Operating Loans  
For Socially  
Disadvantaged**

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The Farmers Home Administration (FmHA) is authorized by the Food, Agriculture, Conservation, and Trade Act of 1990 (1990 FACT Act-Public Law 101-624) to target funds for guaranteeing farm operating loans made by other lenders to socially disadvantaged farmers and ranchers whose operations are not larger than family size.

A socially disadvantaged farmer or rancher is one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as a member of the group, without regard to their individual qualities. For purposes of this loan program, socially disadvantaged groups are women, African Americans, American Indians, Alaskan Natives, Hispanics, and Asians and Pacific Islanders.

Guaranteed loans are made by banks, cooperatives, Farm Credit System member institutions, and other lenders. FmHA guarantees up to 90 percent of the loan principal and interest against loss, subject to certain conditions. The lender is responsible for servicing the loan.

## **How May Guaranteed Operating Loans be Used?**

A borrower may use guaranteed operating loan funds to pay for items needed for a successful operation. These may include livestock, poultry, farm and home equipment, feed, seed, fuel, fertilizer, chemicals, hail and other crop insurance, food, clothing, medical care, and hired labor. Certain debts may be refinanced with this assistance.

Funds may be used to make minor improvements to buildings and real estate, and to install or improve water systems for home, livestock, and irrigation use. Funds may also be

used to finance the purchase of equipment for producing and harvesting trees and other products, aquaculture operations, roadside produce markets, and certain nonfarm business enterprises.

In addition, farmers may use guaranteed operating loan funds to control and abate pollution and to alter equipment, facilities, or methods of operation to comply with the Occupational Safety and Health Act of 1970.

Guaranteed operating loan funds cannot be used to purchase real estate or to make payments on real estate debts.

## **Who May Borrow?**

Individuals, joint operations, corporations, and cooperatives primarily and directly engaged in farming may apply. A “family-size farm” is generally considered to be one that a family can operate and manage itself. This is determined by an elected county committee made up of local farmers.

In addition to being members of a socially disadvantaged group, applicants under this program must find an eligible lender willing to make them a loan. Applicants must also meet all the requirements for an FmHA operating loan. To be eligible, an individual must:

- Have a satisfactory history of meeting credit obligations;
- Have sufficient education, training, or at least 1 year's experience in managing or operating a farm or ranch within the last 5 years;
- Possess the industry and ability needed to succeed in farming;

- Be a citizen of the United States (or a legal resident alien), Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, or certain former Pacific Island Trust Territories;
- Possess the legal capacity to incur the obligations of the loan;
- Be the owner or tenant operating not larger than a family-size farm after the loan is closed.

In the case of corporations, cooperatives, joint operations, or partnerships, the stockholders, members, or partners holding a majority interest must meet these same eligibility requirements. The borrowing entity must be authorized to operate a farm or ranch in the State where the actual operation is located. In addition, the entity must be owned by U.S. citizens or legal permanent resident aliens, and the socially disadvantaged members must hold a majority interest in the entity.

If the individuals holding a majority interest in the entity are related by blood or marriage, at least one stockholder, member, or partner must operate the family farm. If they are not related by blood or marriage, those holding a majority interest must operate the farm.

## **What Are the Interest Rates?**

Repayment terms are generally 1 year for loans used to pay annual operating expenses. For equipment and other operating loans, the terms of the loan may not exceed 7 years. Terms may include equal, unequal, or balloon installments, depending on the circumstances.

Interest rates can be fixed or variable, and as agreed upon by the borrower and the lender. The rate charged may not exceed the rate the lender charges its average farm customer.

## **Security Requirements**

Borrowers must provide sufficient collateral to secure the loan. This may include farm equipment, livestock, real estate, or assignments on crops or other produce. A borrower may not use crops as security for loans with terms of greater than 1 year.

## **How Big Can the Loan be?**

The size of the loan is agreed upon by the borrower and the lender. The borrower must show the ability to repay the loan under the terms and conditions of the loan agreement, and that the loan is necessary to the success of the farming or ranching operation.

The borrower may have more than one guaranteed loan. Each loan must be secured with separate and identifiable collateral. Total indebtedness in FmHA direct and guaranteed operating loans may not exceed \$400,000.

## **Lines of Credit**

FmHA may guarantee a line of credit for the following purposes:

- Payment of annual operating expenses, including normal equipment maintenance and repairs, family living expenses, and the purchase of seed, chemicals, fuel, feeder animals, and other inputs.
- Payment of debts that the borrower incurred for current annual operating expenses before the guarantee was issued. This does not include debts carried over from the previous year.

Guaranteed lines of credit cannot be used to make principal payments on real estate or to purchase real estate or capital items such as equipment.

FmHA may contract to guarantee a line of credit for a term of up to 3 years, subject to review at the beginning of each year.

## **Interest Assistance**

When an applicant is temporarily unable to project a positive cash flow with a loan at the interest rate normally charged by the lender to farm borrowers, FmHA may provide a subsidy to lower the interest rate so the farming operation will have a positive cash flow.

In such cases, the lender agrees to reduce the rate of interest paid on the loan to a rate the borrower can pay. In return, FmHA pays the lender an amount equal to the amount the rate is reduced, not to exceed 4 percentage points of interest. The borrower must be able to project a positive cash flow at the lower rate in order to qualify for the loan.

FmHA periodically reviews the borrower's need for interest assistance. The agency may reduce the subsidy if the borrower can make payments at a higher interest rate, or discontinue it altogether if a positive cash flow is projected at the regular rate.

The maximum length of time interest assistance may be provided on any loan is 3 years. The authority to enter into interest assistance agreements expires on September 30, 1995.

## **How Do I Apply?**

To obtain a guaranteed operating loan, you must apply to an eligible lender. If the lender decides to make the loan, the lender applies to FmHA for a guarantee.

## **Who Can Make Guaranteed Loans?**

Lenders eligible to participate in the FmHA guaranteed farm loan program include:

- Any Federal or State chartered bank, Farm Credit Bank, or other Farm Credit System institution with direct lending authority;
- The Bank for Cooperatives, savings and loan associations, building and loan associations;
- A mortgage company that is part of a bank-holding company;
- Credit unions that are examined and supervised by either the National Credit Union Administration or a State agency;
- An insurance company that is regulated by a State agency or the National Association of Insurance Commissioners; and
- An Agricultural Credit Corporation that is a subsidiary of any Federal or State chartered bank.

All these lenders must be subject to credit examination and supervision by either a Federal or State agency. The lenders must be in good standing with their licensing authority and have the capability to adequately service the loans for which guarantees are requested.

Other lenders may be eligible, but they must be approved by FmHA on a case-by-case basis.

## **What If I Can't Find a Lender?**

Your FmHA county office can recommend a lender to you. If you are unable to qualify for a guaranteed loan, you may be eligible for a direct loan from FmHA. County office personnel can give you further information.

Further information about FmHA farmer programs loan assistance is available at the agency's local offices. These are usually listed in local telephone directories under "United States Government, Department of Agriculture, Farmers Home Administration."

If you are unable to locate the local FmHA office, write the Farmers Home Administration, U.S. Department of Agriculture, Washington, DC 20250. Be sure to give the name of the county in which you plan to operate the farm.

Farmers Home Administration is an Equal Opportunity Lender. Complaints of discrimination should be sent to: Secretary of Agriculture, Washington, DC 20250